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Tracing Failure in Non-State Market-Driven Governance: The Case of Coral Reef Protection

*Michael J. Bloomfield and Philip Schleifer**

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Abstract

In the past two decades, non-state market-driven governance programs have flourished across industries, as has scholarship on the subject. Focused on relatively successful cases, a central argument has been that the presence or absence of certain market and non-market conditions makes a program's success more or less likely. However, institutional failure remains an important blind spot in the private governance literature, and we argue that a focus on scope conditions alone cannot explain why some programs thrive while others ceased to exist. Studying the now defunct Marine Aquarium Council – a certification program for coral reef protection – we adopt an institutional process approach to fill this gap. Our main points can be summarized in a two-step argument: First, we argue that the scope conditions of private governance are partly endogenous to these processes. Through making strategic decisions, private governance programs have a certain level of control over their environment and thus the scope conditions under which they operate. Second, initial choices often unfold path dependencies over time. Tracing the evolution of the Marine Aquarium Council, we illustrate the program's 'mission creep' and the 'vicious-cycle' of self-reinforcing activity which culminated in its failure.

Keywords

Private governance, NSMD governance, certification, sustainability, institutional failure, path dependence

Biographical Statement

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Introduction

Beginning in the early 1990s, business and civil society actors have been developing non-state market driven (NSMD) governance programs to mitigate the environmental impact of transnational production (Cashore, Auld, & Newsom, 2004). While some of these initiatives have gained substantial rule-making authority in their industries, others have struggled, and some even ceased to exist.

To explain varying levels of support for private governance, existing studies mainly focus on the constellation of certain market and non-market conditions, such as the structure of supply chains and the export dependency of industries (Bartley, 2010; Cashore et al., 2004; Cashore, Egan, Auld, & Newsom, 2007; Espach, 2006; Fransen & Burgoon, 2011; Mayer & Gereffi, 2010; Schleifer, 2016a, 2016b). A central argument in this literature is that the presence or absence of these conditions makes a program's success more or less likely. While this line of work has produced important insights into the scope conditions of NSMD governance, concerns have been raised about the static nature of the approach and its analysis (cf. Bernstein & Cashore, 2007). In addition, the existing literature is strongly biased towards studying relatively successful programs, such as the Forest Stewardship Council (FSC).

In this article, we aim to address these limitations. Adopting an institutional process perspective, we focus on the role of agency and history in exploring cases of failure in NSMD governance. Our argument can be summarized in two points: First, the scope conditions of private governance are not entirely exogenous to these processes. It is true that industry sectors are different, providing more or less favourable conditions for this mode of governance. However, even within the same industry there are several market segments, supply chains, and production locations. This means that, through making strategic decisions, NSMD programs have a certain level of control over their environment and thus the scope conditions under which they operate. Second, initial choices often create path dependencies over time. Decisions taken in the early stages of a program's development influence the decisions taken at later stages (Auld, 2014). In order to understand why some programs fail, we need to trace these pathways and the decisions that are made at critical junctures of the institutional process.

To illustrate the argument, we investigate the failure of the Marine Aquarium Council (MAC), an NSMD program created to develop standards and a certification system for coral reef protection. We trace the institutional pathway of the MAC and draw anecdotal comparisons to the more 'successful' Marine Stewardship Council (MSC) – a program of similar origin that took a very different trajectory. Our analysis reveals how a sequence of interrelated decisions led to a 'mission creep', transforming the MAC from a multi-stakeholder certification program into a top-down development NGO with a focus on Indonesia and the Philippines. Highly dependent on external funding, the MAC did not survive when its donors grew increasingly skeptical about its agenda and ability to deliver. However, we show that this failure was not pre-determined. In fact, several scope conditions were looking quite promising for NSMD governance in the marine ornamentals industry.

The article is structured in 5 sections. Section 2 introduces the subject and develops the framework of analysis. Section 3 discusses the study's research design and methodology. Section 4 conducts the empirical analysis. A final section discusses our findings and outlines an agenda for future research.

Exploring Failure in Private Governance

The rise of private authority in international affairs has fundamentally transformed the landscape of global governance (Cutler, Haufler, & Porter, 1999). This is particularly true for the field of sustainability politics. Here, business and civil society actors have created a large variety of private governance arrangements, including Corporate Social Responsibility initiatives and a wide range of hybrid schemes (Abbott & Snidal, 2009). One important group of initiatives is the so-called NSMD governance programs (Cashore, 2002; Cashore et al., 2004). Developed through the collaboration of business and civil society actors, NSMD programs set sustainability standards for global supply chains and use certification to create market incentives for firms to comply with their rules.

An important champion of the NSMD model has been the World Wide Fund for nature (WWF). One of the world's largest private environmental organizations, the WWF has played a key role in developing the model and in initiating NSMD programs in a wide range of industry sectors (Auld, Balboa, Bartley, Cashore, & Levin, 2007; WWF, 2010). Through a search on the internet and a review of secondary literature, we could identify at least 15 NSMD programs in which the WWF has been substantially involved (see Table 1).

There is now a sizeable body of literature on these programs and private governance arrangements that follow a similar model (Auld, 2014; Bartley, 2007; Bernstein & Cashore, 2007; Cashore, 2002; Cashore et al., 2004; Pattberg, 2005; Schouten & Glasbergen, 2011). This literature has provided us with a good understanding of the historical context and the micro- and macro-level factors that have driven the emergence and proliferation of private sustainability governance. In addition, scholars have sought to uncover the conditions under which NSMD programs gain rule-making authority.

Rule-making authority can be understood as an institution's legitimate decision-making power (Cutler et al., 1999: 5). It is granted or denied by an institution's primary audiences in a dynamic process of legitimation. In the case of NSMD governance, Benjamin Cashore (2002) identified economic demand- and supply-side actors, environmental groups, and government actors as the primary audiences of these programs. In a series of studies, Cashore and his collaborators investigated the conditions under which these audiences lend support to NSMD governance, focusing mainly on economic actors (Cashore et al., 2004; Cashore et al., 2007).

Much of this early work was centred on the FSC as the most advanced NSMD program at the time. However, a comparison across programs reveals significant variation in the patterning of support. Using global market uptake as a rough indicator for the level of support from economic actors, Table 1 identifies the FSC, the MSC, and the RSPO as top performers.

Their global market share ranges between 8 and 18 percent. Others such as the AWS, GRSB, ASC, and the HPSAP are still very young and it is therefore too early to assess their performance. However, there is also a group of programs that have been struggling to gain rule-making authority with some having failed entirely, ceasing to exist as organizations. The latter group includes little known and under researched NSMD programs such as the MAC, FLP, PAN Parks, and the EUGENE Energy Standard.

- Table 1 here -

The scope conditions of NSMD governance

To explain variation in the support for private governance, scholars have sought to identify its scope conditions (Bartley, 2010; Cashore et al., 2004; Cashore et al., 2007; Espach, 2006; Fransen & Burgoon, 2011; Mayer & Gereffi, 2010; Schleifer, 2016b). These studies have examined a range of variables that are thought to influence a program's ability to gain support and thus rule-making authority. Distinguishing between market and non-market conditions, Table 2 provides an overview of the factors that are most frequently mentioned in this literature. For a good overview and discussion of the individual factors and the arguments behind them see Cashore et al. 2007, Espach 2007, and Schleifer 2016b.

- Table 2 here –

This research on the scope conditions of the NSMD model has brought important insights. In particular, scholars have been able to use structured-focused comparisons of programs and industries to identify the constellation of factors that matter most. However, this literature also suffers from several limitations. Firstly, there is a risk that comparisons of this kind become too static. This makes it difficult to capture the procedural character and causal complexity of NSMD governance, in which several factors interact over time and co-produce an outcome. Secondly, the literature has a tendency to emphasize structural variables over agency. This can lead to deterministic arguments and neglects the possibility that these variables are not entirely exogenous to the private governance process. Thirdly, the wider literature on NSMD governance is strongly biased towards highly visible and relatively successful programs, such as the FSC and the MSC (e.g., Cashore et al., 2004; Gulbrandsen, 2010; Gulbrandsen & Auld, 2016; Kalfagianni & Pattberg, 2013; Pattberg, 2005). In fact, to our knowledge, there is currently not a single study that looks into the issue of truly failed programs. For studies following a comparative logic, this creates a problem of 'truncated samples' – i.e., samples that do not cover the whole spectrum of variation in the dependent variable. As explained by King,

Keohane, and Verba (1994: 129-149), this is problematic as it reduces the analytical leverage of comparative research designs.

An institutional process perspective

To address these limitations and to complement existing research on NSMD governance, we adopt an institutional process perspective and explicitly focus our analysis on failed programs. Our approach draws inspiration from existing process models of private governance (Abbott & Snidal, 2009; Bernstein & Cashore, 2007) and, in particular, Graeme Auld's (2014) work on path dependency in this context. While we recognize the importance of scope conditions in creating more or less favorable environments for NSMD governance, we argue that these conditions are partly endogenous to these processes. By this we mean that NSMD programs have a certain degree of control over their environments, as they can choose where to operate, which approach to adopt, and which supply chain segment to target. Thus, while we do not ignore structural variables, our analysis puts emphasis on agency and history. More precisely, we trace the institutional pathway of a program, and the decisions that are made at critical junctures of this process.

The concept of institutional pathways has its roots in historical institutionalism (Mahoney, 2000; Pierson, 2004; Thelen, 1999). A good way to introduce the idea is Margaret Levi's (1997) metaphor of a branching tree: 'think of a tree with many branches; choosing to climb one branch does not mean others are impossible to reach, but getting to them may be difficult. Decision-makers in the future, in other words, will be limited to certain options (nearby branches) dictated by far-removed historical events' (paraphrased by Auld, 2014: 27). To explain how such pathways are chosen in the first place and why, once taken, they are so difficult to reverse, historical institutionalists often make arguments involving critical junctures and path dependency (Capoccia, 2015; Pierson, 2000).

Critical junctures can be defined as moments in the history of an institution in which uncertainty over future developments enable political agency and choice to play an important role in setting the institution on a certain path of development. These turning points can be triggered through a variety of external shocks (e.g., economic crises or wars) (Capoccia, 2015). In addition, and most relevant for our analysis of NSMD governance, we argue that moments of institutional foundation create significant scope for decision-makers to choose among different pathways.

However, once taken, these trajectories are often very difficult to reverse due to the logic of path dependency – even in light of inefficiencies and unintended consequences (Hall & Taylor, 1996; Pierson, 2000). Arguments about path dependency have their origin in economic theory. Studying technological innovations, economists have shown how a particular technology can dominate an industry over long periods of time, despite mounting evidence about its inefficiency. A textbook example is the 'QWERTY' keyboard, which has been proven to be less efficient than alternative keyboard layouts. Economists, like Arthur Brian (1994), explain this with the logic of path dependency, in which sunk costs and increasing returns

‘produce consequences which make a path more attractive for the next round. As such effects begin to accumulate, they generate a powerful virtuous (or vicious) cycle of self-reinforcing activity’ (Pierson, 2000: 253).

Political scientists have imported arguments about path dependency to study the evolution of political institutions (Mahoney, 2000; Pierson, 2000; Thelen, 1999), recently also including private governance arrangements (Auld, 2014). Following in this line of research, we trace the institutional pathway of the MAC with the objective to uncover the critical junctures and ‘vicious cycle’ of self-reinforcing activity that culminated in its failure. As research on path dependency in private governance is still at a very early stage, we adopt an inductive research strategy, which we lay out in the following section.

Methods and Data

Originating in historical analysis, inductive process tracing is a within-case study technique that focuses on uncovering causal pathways instead of testing correlations. It is deemed to be particularly useful in new fields of research, especially for ‘phenomena on which there is little prior knowledge and for cases that are not well explained by extant theories’ (Bennett & Checkel, 2014, 18). Above all, its process focus makes it very suitable for the study of institutional pathways.

For the analysis, we selected the MAC as our primary case study. Following the creation of the first NSMD governance program in the forestry sector in the early 1990s, the WWF carried the model to several other industry sectors, including the marine ornamentals industry (Auld et al., 2007). While some of these programs have succeeded to gain rule-making authority, others, including the MAC, have not and failed. It is this puzzle that motivated our case selection. In this regard, our in-depth study of a failed program provides an important complement to the existing literature on NSMD governance which, so far, has neglected these ‘non-cases’.

In our exploration of the MAC’s failure we proceed in two steps. First, we conduct a background analysis of the marine ornamentals industry, in order to explore the scope conditions for NSMD governance in this sector. Second, we trace the evolution of the MAC, uncovering the critical junctures, decisions, and path dependencies that set this program up for failure. During the analysis, we draw anecdotal comparisons to the more ‘successful’ MSC in the fishery sector to illustrate where alternative pathways might have led. Also an initiative of the WWF, the MSC was established around the same time as the MAC but followed a very different trajectory. While some of this may have been the result of different scope conditions, our analysis shows that initial choices and subsequent path dependencies are of key importance to explain the observed outcomes.

For the empirical analysis we draw on 12 semi-structured interviews, which we conducted between 2014 and 2017. The majority of interviews targeted the MAC’s management as well as firms, NGOs, and public agencies that had been closely involved with

the program. In addition, several interviews were conducted with the stakeholders of other failed NSMD programs, such as the Flower Label Program. The evidence obtained through the interviews was triangulated through organizational records and other primary and secondary sources.

Tracing the Failure of the Marine Aquarium Council

Background

Irresponsible collection practices of wild marine organisms have been implicated in coral reef destruction. Negative impacts include stress and bleaching of coral due to the widespread use of cyanide to capture fish, the breaking apart of coral to access fish that are hiding, the overfishing of particular target species, and the extremely high post-harvest mortality of collected specimens (Wabnitz et al. 2003).

While not the most significant threat facing coral reefs worldwide, the WWF saw potential for not just ensuring a sustainable marine ornamentals trade, but the opportunity to use the industry and the certification to ‘create an anchor for broad coral reef protection’ (Bunting, 2001).

Through funds from the US Agency for International Development (USAID), the David and Lucile Packard Foundation and the John D. and Catherine T. MacArthur Foundation, the MAC was officially launched in 1998. Drawing participants from industry and civil society, they formed an interim board of directors and hired an executive director. In the words of the first executive director, the end goal was ‘a largely self-financed system based on the improved economic return from certified marine aquarium organisms’ (Holthus, 1999: 35).

Yet, just over a decade later, the MAC had ceased to exist. What went wrong? In the following analysis we trace the emergence, challenges, and eventual failure of the MAC. We begin by exploring the scope conditions the MAC founders faced, both market and non-market.

Scope conditions

The trade in ornamental fish and coral for private hobbyists and public aquariums is worth an estimated US \$200-330 million annually (Gopakumar, 2004; Larkin & Degner, 2001; Shuman, Hodgson, & Ambrose, 2004). More than 95 percent of species supplying the industry are wild harvested and their collection and sale constitute a major livelihood strategy for many living in small fishing villages, mostly in Southeast Asia (Auld, Cashore, Balboa, Bozzi, & Renckens, 2010; Gopakumar, 2004; Wabnitz, Taylor, Green, & Razak, 2003).

The global supply chain is composed of collectors, middlemen, exporters, importers, retailers, and consumers (Cohen, Valenti, & Calado, 2013). The vast majority of fish are

collected in the Philippines and Indonesia, and the largest retail market is the US (Wabnitz et al., 2003). The supply chain is fragmented and complex, but the extent to which this is the case varies, depending on the particulars of the exporting and importing environments. For example, the Philippines and Indonesia are extremely complex operating environments for regulators, while Florida and Hawaii are closely regulated with strict quotas and monitoring systems (Cohen et al 2013). Likewise, while sales are difficult to trace in some importing jurisdictions, in others, like the EU, traders are required to contact the Ministry of the Environment for technical certification and report all trades to the Ministry of Finance (Wabnitz et al., 2003).

With over 100 countries involved in the trade, the marine ornamentals industry is truly global (Dykman, 2012). The vast majority of the market power is located in importing countries, like the US, EU and Australia, and the collector sites are extremely dependent on these export markets for survival (Dykman, 2012; Wabnitz et al., 2003). As such, raising awareness and support for certification at this downstream end of the supply chain is the key to creating market incentives for collectors to participate.

As part of its downstream strategy, the MAC was forging alliances with important players in the market. For example, the president of Quality Marine, a major US wholesaler, sat on the board of the MAC. The MAC also enjoyed support from many peak industry associations, such as the Association of Zoos and Aquariums, the Ornamental Aquatic Trade Association, and the Scandinavian Pet Trade Union, among others. Additionally, there was incredible potential to leverage the retail end of the supply chain as the market is dominated by two large, branded, and consumer facing companies: Petco and PetSmart. Together they accounted for 58.6 percent of the US retail market in 2016 (Oliver, 2016). If the MAC could meaningfully engage with these large players, they could create the necessary market incentives for others to participate.

While the aquarium trade has not faced the same degree of social movement pressure as, for example, the apparel industry, there was a reported ‘Nemo Effect’ following the success of Pixar’s 2003 Oscar winning film, *Finding Nemo*. The popularity of the film raised awareness of the trade for the general public, and awareness amongst civil society and industry actors of the political issues and associated risk permeating the industry (Militz & Foale, 2017).

Moreover, this growing industry caters to collectors and hobbyists, a core consumer group that can be expected to care more about the ecological impacts of the trade, on average, than everyday buyers of less specialised consumer products, such as apparel, palm oil, or seafood (Dykman, 2012). The industry is considered a ‘luxury hobby’ (Rhyne & Tlusty, 2012), which makes it extremely susceptible to reputational risk (Bloomfield, 2014). Additionally, the high mortality rates during collection and handling not only contribute to the overfishing of target species (Schmidt & Kunzmann, 2005) but, when the organisms die in the tanks of consumers, it makes an already expensive hobby even more costly. Therefore, the demand for some sort of quality control was growing. Unofficial and official surveys amongst demand side actors showed both support for certification and a willingness to pay (Shuman et al., 2004: 343). This, in turn, suggested there was at least the potential for a future price premium for collectors.

There was also scope for the MAC to take advantage of state support. For example, the US Coral Reefs Task Force and the UNEP-World Conservation Monitoring Centre made the international trade in coral a core element of their programs (Rhyne & Tlusty, 2012). Additionally, there were international frameworks covering the industry, including the Convention on International Trade in Endangered Species (CITES) and the International Union for Conservation of Nature (IUCN). The MAC received some direct funding from state actors in the form of a USAID grant, and indirectly through the International Finance Corporation (IFC) later on. On the ground, the regulatory capacity of state actors differed across country contexts, but there were relatively well regulated collection sites in, for example, Australia, the US, and Fiji.

In sum, there was a high level of fragmentation in some key production sites at the upstream end of the supply chain, but this varied across countries. Importantly, the high export dependency, initial interest from major buyers and peak industry associations, and the presence of large, branded retailers at the downstream end of the supply chain suggests that there was certainly potential to establish a self-sustaining certification scheme. The political salience of the issue area was growing, demand side actors appeared to be willing to pay a premium for just such an initiative, and there was potential for state and international bodies to lend added support. So while far from perfect, the market and non-market scope conditions were actually quite positive for the MAC to build upon. So why did the MAC fail? In the next section, we undertake an institutional process analysis to solve this puzzle.

Institutional foundation

A critical juncture in the lifecycle of an organization occurs at its inception, when choices about its organizational model, strategy, and funding partnerships are made. These early decisions set the institutional trajectory for an organization, a trajectory that can be very difficult to reverse, as one decision will influence the next. We begin the analysis with these early decisions.

In 1997, the WWF led a coalition of conservation organizations, government agencies, and industry stakeholders into a series of discussions about starting the MAC. The founders held a number of multi-stakeholder workshops in Honolulu, Hawaii, and formally launched the MAC in 1998. They set to work creating guidelines to address practices along the entire chain-of-custody: fisheries management, collection, handling, and transport. With both industry and conservation groups seemingly onside, the MAC rolled out its label in 2001.

But right from the beginning, choices made about how to structure the MAC steered the initiative off its originally conceived, market-driven path. Instead of keeping the management team to a minimum and pursuing a ‘bottom-up’ approach, where a small team simply coordinates market stakeholders, the MAC opted for a larger, ‘top-down’ approach – a

classic, NGO-style organizational structure.¹ These early choices had broad implications for stakeholder engagement, institutional learning, and funding.

Reports from funders, consultants, and managers note a damaging lack of input from industry stakeholders at all stages of the supply chain.² This included a lack of input from collectors, which made the standards inappropriate and led to a lack of ownership of the initiatives on the ground. As one former MAC manager explains:

The whole program was kind of artificial to a collector in the Philippines or Indonesia... What they faced was an NGO coming there, asking them to participate in the training and in the certification. The request was, in many cases, not even coming from the supply chain or from the exporters they were supplying... They participated for the reason that they got compensation for the days they were participating in the workshops, in the training.³

A similar lack of ownership was reflected at the top echelons of the organization: the board of directors (Packard Foundation, 2008). Big industry players were formally on the board, but interactions amongst board members and between the board and management were limited. In fact, the board only met face-to-face for the first time in 2008.⁴ The executive director was really running the show and, without extra layers of accountability, management was bound to make mistakes.⁵ Their ambitious supply chain strategy turned out to be a critical one.

NSMD programs have a choice when it comes to which segment of the supply chain to focus on, and this choice impacts the institutional pathway of the organization. As one informant put it: ‘You need to know where you fit in the supply chain’.⁶ Instead of carefully considering the scope conditions for success and focusing on the needs of the buyers driving demand for marine ornamentals, the MAC could be said to have been both ambitious and unfocused.

Recall, the MAC founders decided to certify the entire supply chain, both products and practices, from collectors to traders to transport to retail. In order for a product or service provider to be MAC-certified, every stage in the supply chain had to be certified – and the products travelling through these various stages had to be kept verifiably separate from those products falling outside the initiative.

¹ Interview with former member of MAC BoD, via Skype, January 2017.

² Interview with former member of MAC BoD, via phone, June 2014; Interview with former MAC manager, via phone, June 2014.

³ Interview with former MAC field manager, via phone, March 2015.

⁴ Though there were reportedly numerous conference calls in previous years (Interview with former member of MAC BoD, via Skype, January 2017).

⁵ Interview with former MAC field manager, in person, June 2015.

⁶ Interview with former member of MAC BoD, via Skype, January 2017.

This verification proved to be extremely difficult and this spilled over to negatively impact its relationship with stakeholders. Skepticism was rife amongst buyers, many of whom expressed concerns over mixing of certified and non-certified fish by wholesalers and importers ([McCollum 2007, 29](#)). Despite advancements in chemical testing to establish where the organisms originated and whether cyanide was used to capture them, the tests remain costly, the accuracy is suspect, and it kills the fish (Auld et al., 2010: 18).

In sum, the MAC founders chose an organizational model that was not only expensive to maintain, but lacked meaningful industry participation. Although the MAC was ostensibly a multi-stakeholder initiative, evident in its board composition, the exclusive decision-making structure precluded meaningful interactions between MAC management and its stakeholders. This, in turn, led to a lack of industry information, a lack of institutional learning and, ultimately, poor strategic decisions that eroded their credibility with industry.

In contrast, the MSC, as our point of comparison, was founded through strategic partnerships between industry (Unilever) and civil society (WWF). The founders of the MSC recognized the need to build alliances between civil society groups and demand-side actors from the very beginning, ensuring there would be incentives for producers to join the program.

The MSC was also more inclusive when designing its standards. This involved over 300 organizations and individuals, including two expert drafting sessions followed by numerous workshops and consultations held across ten countries, in both the developed and developing worlds, from 1996 to 1999 (Auld, 2007; Gulbrandsen, 2009). This ‘bottom-up’ approach offered more opportunities to evaluate the industry landscape and the needs of its various stakeholders.

We saw that there was initial industry interest in the MAC and large buyers even sat on its board. But MAC management failed to actively engage them in the process. In contrast, the MSC partnered with Unilever. Involving a powerful supply chain actor made it less complicated to gain and maintain industry support while also compelling the MSC to establish modest rules. In fact, the organization simply adopted existing industry best practices. This strategy ensured that the needs of large, industrial buyers were taken into account. These buyers need enormous quantities of product and so the MSC needed to certify large fisheries in a timely manner.

But this more corporate model did raise some eyebrows. Not only did the focus on large, industrial supply chains erode its legitimacy in the eyes of many, but stakeholders had also expressed concern that the MSC was top-heavy, bureaucratic, and lacking transparency (May, Leadbitter, Sutton, & Weber, 2003). The difference between the two organizations in this case was the timing of reforms.

Once the initial seed money ran out and it was time to find new donors, the MSC had plenty of incentive to increase its independence (Gulbrandsen, 2009). They had established a foothold in the industry and had a growing membership base. So when the organization was forced to find new sources of finance, it adapted to meet the expectations of its stakeholders.

In contrast, the MAC lacked meaningful participation from industry stakeholders and its standards were not aligned with the needs of the industry, raising doubts about its ability to become self-sustaining. The MAC found itself locked into an expensive and exclusive organizational structure and, instead of reforming to meet industry needs, management instead sought out alternative sources of funding.

The Marine Aquarium Transformation Initiative

Due to its costly organizational model and ambitious strategy, the MAC was forced to scramble for funding.⁷ Toward this end, they formed alliances with two conservation organizations and succeeded in obtaining funding from the IFC, the private sector arm of the World Bank. In partnership with the Reef Check Foundation and the Conservation and Community Investment Forum (CCIF), the MAC led a five-year (2005-2009) initiative called the Marine Aquarium Market Transformation Initiative (MAMTI) with US \$6.6 million coming from the IFC and co-financing commitments of US \$6.9 million from public and private sources (Bellamy & Winsby 2008).

As it stood, the MAC rules were too complex, the paperwork too unwieldy, and the fees too large for the small-scale collectors whose practices they wanted to change.⁸ Instead of changing the standards or switching the implementation environment to meet industry needs, the MAMTI project drew the MAC farther down the path of a development NGO, attempting to build capacity in the source countries so collectors could meet the requirements of the standards.

The targets of the project were ambitious: 1) transforming at least 17 percent of the worldwide marine aquarium industry by achieving MAC certification through the complete supply chain; 2) creating marine management areas, including establishing the initial baselines, and; 3) increasing awareness of these best practices and their benefits at both ends of the supply chain (Bellamy & Winsby, 2008: 2).

Implementing the program in Indonesia and the Philippines

Having departed from its original market-driven path, the MAC was drawn into the challenging implementation environments of Indonesia and the Philippines. By tying itself to its MAMTI partners, both funders and project collaborators, the MAC's focus shifted to developing country suppliers. Without creating the market incentives necessary to drive change along the supply chain, the MAC needed this alternative source of funding. But this, in turn, led them farther down a more development-focused path.

There were good reasons to concentrate on Indonesia and the Philippines, at least in terms of the potential for immediate impact: combined they constitute 80 percent of the supply

⁷ Interview with member of MAC BoD, via Skype, January 2017.

⁸ Interview with former MAC field manager, via phone, June 2014.

of marine ornamentals (Wabnitz et al., 2003). But both were extremely difficult environments to certify. For example, reefs in the US and Australia are highly regulated by government agencies, and Fijian reefs generally fall under a customary marine tenure system that puts local villages in control of protection (Wood, 2001). By contrast, Indonesia's government agencies lack the capacity to enforce existing regulations and the country's free access laws make local protection schemes difficult (CCIF, 2001; Shuman et al., 2004). Additionally, approximately 80 percent of collectors in these countries are 'roving', meaning that they fish on many reefs (Bellamy & Winsby, 2008). This made monitoring practices and tracing products even more complex.

Through the MAMTI project, the MAC achieved some of its goals, including establishing 15 collection areas (10 in the Philippines and 5 in Indonesia), training 777 collectors/traders in non-destructive methods, training 572 collectors/traders in business and financial management, and certifying 463 of them (Bellamy & Winsby, 2008: 2). But these modest gains came at a cost; the MAC had by now strayed far from its initial market-driven path and deep into the sphere of activity more usually associated with development NGOs.

In sum, failing to build sufficient market alliances and incentives, MAC management tied themselves to the goals of a larger development project, distracting them from the core mandate of creating a viable certification. This kind of 'development NGO' funding model further reduced any incentive for MAC to adjust its approach, to meaningfully engage with demand-side actors, or to reform their top-heavy management structure. But perhaps the most critical mistake of all was the choice of implementation environment, as the Philippines and Indonesia were immensely more challenging than other options available to the MAC.

The MSC could have also faced complex implementation environments. For example, there are many small-scale fisheries around the world, governed through multiple access rights to shared fishing resources (Gulbrandsen, 2010). Moreover, many species of fish are migratory, placing additional logistical pressure on those attempting to govern this resource (Gulbrandsen, 2010).

The difference between the two NSMD schemes is that the MSC continued along its market-driven trajectory and conformed to industry needs. To ensure a sufficient and verifiable supply of certified products, the MSC focused on the 'low-hanging fruit', rolling out the initiative in areas that were already well-regulated and contained far fewer, and much larger-scale, fishers (Kaiser & Edwards-Jones, 2006). Choosing to roll out the initiative in the well-regulated Alaskan fishery (Gulbrandsen, 2009), while initially avoiding more fragmented and under-regulated fisheries, greatly reduced the complexity of the MSC's implementation environment.

The failure of the MAC

On 30 April 2008, the IFC released a mid-term report, scathing in its evaluation. The report noted that the MAMTI project was overly ambitious and lacking in industry information

(Bellamy & Winsby, 2008). Its authors concluded that the project was not on track to meet its goal of a self-sustaining MAC. They recommended that funding should be cut. Past choices had made the MAC dependent on the IFC, and so this was an enormous blow to the organization.

To make matters worse, former staff members began accusing management of misappropriating funds.⁹ Investigating the voracity of such accusations is beyond the scope of this paper. What can be said is that some informants feel this too can be linked back to the MAC's funding model, which relied on money stemming from the larger capacity building projects to keep the organization going.¹⁰ Once again, we can trace how the MAC's initial decisions about the organizational model and focus influenced its later funding partnerships and, eventually, contributed to the 'vicious cycle' the MAC now found itself in.

It was at this point the board of directors decided to step in. Meeting face-to-face for the first time in Washington, DC, the board recognized the MAC's 'mission creep' emanating from its need to raise funds and connected to its decision to implement the initiative in very tough regulatory environments. They noted the flawed organisational model and the overly ambitious goals of management. With the aim of counter-acting the so-called 'founder's syndrome' that accompanied the organization's top-down structure, they fired the executive director.¹¹

But even here, choices are important, both past and present. Because of the MAC's exclusive decision-making structure, when the organization lost its founding executive director, it not only lost his vision and enthusiasm for the project, but it lost significant institutional memory. At least one board member suggested that this was the wrong decision – that, in hindsight, they should have simply shifted him to an advisory role.¹²

The board appointed a new executive director, but, by this time, it seems it was too little, too late. The IFC cancelled its grant and terminated the MAMTI project. While the MAC continued in some capacity for a couple years beyond this, by 2010 the money had stopped coming in and the focus became stabilizing the financial situation for the purpose of closing up shop.¹³

In sum, through a set of interconnected decisions the MAC developed into a 'top-down', capacity building organization. Disconnected from the realities of the industry, it made itself highly dependent on external donors and chose a very difficult operating environment to implement its system. In contrast, the MSC embarked on a more 'bottom-up', market-based path. It developed strategic partnerships with big buyers, maintained the flexibility to reform

⁹ These issues were hinted at in the IFC report, and numerous informants substantiated the fact that the accusations were circulating.

¹⁰ Interview with former member of MAC BoD, via Skype, January 2017.

¹¹ Interview with former member of MAC BoD, via Skype, January 2017.

¹² Interview with former member of MAC BoD, via Skype, January 2017.

¹³ Interview with former member of MAC BoD, via phone, May 2014.

at critical moments, and focused on the ‘low-hanging fruit’ to meet the immediate needs of large buyers.

The case analysis demonstrates how industry scope conditions are not sufficient in understanding why the MAC failed. The scope conditions for establishing a successful certification for marine ornamentals were present. Taking a more historical, process-oriented approach reveals how choices made at critical junctures influenced the conditions underpinning the MAC’s chances for success, and not just the other way around. Early choices by MAC management influenced later choices and it became increasingly difficult to turn the MAC around. In other words, path dependency took hold. While we cannot know for certain what would have happened had different choices been made, we have used the experiences of the MSC to probe these counterfactuals.

Of course, it bears considering how the pathway taken by the MSC raises a different set of questions about NSMD programs. The MSC’s market-driven strategy runs the risk of creating practical, but ultimately limited, programs. The MSC is now a focal institution in the regulation of global fisheries. However, its success in reducing the depletion of global fish stocks remains limited and scholars continue to criticize the adverse socio-economic consequences of its industry-centered approach (Kalfagianni & Pattberg, 2013, 2014; Ponte, 2008). Small-scale and developing country fishers are still relatively under-represented in the MSC system. In fact, one of the unintended consequences of the MSC has been to favor developed country and large-scale fisheries (Gulbrandsen, 2009). Clearly, this is a significant shortcoming of the MSC’s approach. However, in terms of establishing the MSC as a viable institution, these strategic decisions bought it some time to develop, gain market share, and earn some credibility.

Conclusion

Private sustainability governance is now an important source of regulation in transnational industries. Created jointly by business and civil society actors, NSMD programs are deployed in a wide range of sectors, including forestry, fisheries, mining, and many others (Auld et al., 2007). What allows these programs to gain support and rule-making authority has been a central theme in the research literature (Cashore, 2002; Cashore et al., 2004). In this article, we looked at the other side of the coin. Focusing on the case of coral reef protection, we traced the evolution of the MAC from its inception to its failure.

Our findings reveal that while industry scope conditions matter they do not determine the fate of NSMD programs. In this respect, our case study shows how various scope conditions – market and non-market – were quite promising in the marine ornamentals industry. However, the MAC’s decision to focus on capacity-building in Indonesia and the Philippines landed it in a very challenging implementation environment. The story of the MAC nicely illustrates our point that the scope conditions of private governance are not entirely exogenous to these processes. The second part of our argument is that initial choices often unfold path dependencies over time. Tracing the evolution of the MAC, we documented its ‘mission creep’

and step-by-step departure from the NSMD model. While the risks of its top-down, capacity-building approach were visible to stakeholders early on, a ‘vicious-cycle’ of self-reinforcing activity made changing course very difficult and ultimately culminated in the MAC’s failure.

The upshot of our analysis is that, besides industry scope conditions, institutional pathways matter. In order to understand why NSMD governance succeeds or fails, we need to study the histories of these programs (Auld, 2014). We may find that certain pathways are systematically associated with positive or negative outcomes. Future research should continue along this trajectory. In particular, more empirical work on failed programs is needed, as these ‘non-cases’ remain an important blind spot in the literature.

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Table 1: The WWF's NSMD programs

Name	Industry sector	Year of initiation	Global market uptake
The Forest Stewardship Council (FSC)	Forestry	1993	8%
PAN Parks Foundation	Tourism	1997	Now defunct
The Marine Aquarium Council (MAC)	Marine ornamentals	1998	Now defunct
The Flower Label Program (FLP)	Flowers	1999	Now defunct
The Marine Stewardship Council (MSC)	Fishery	1999	10%
Eugene Green Energy Standard	Energy	2002	Now defunct
The Roundtable on Sustainable Palm Oil (RSPO)	Palm oil	2002	18%
The Roundtable on Responsible Soy (RTRS)	Soybeans	2004	< 1%
The Better Cotton Initiative (BCI)	Cotton	2004	4%
The Better Sugarcane Initiative (now Bonsucro)	Sugarcane	2004	4%
The Roundtable on Sustainable Biofuels (RSB)	Biomaterials	2005	< 1%
The Global Roundtable for Sustainable Beef (GRSB)	Beef	2010	< 1%
The Aquaculture Stewardship Council (ASC)	Aquaculture	2010	< 1%
The Hydropower Sustainability Assessment Protocol (HSAP)	Hydropower	2010	< 1%
Alliance for Water Stewardship (AWS)	Water	2010	< 1%

Sources: websites of programs

Table 2: The scope conditions of the NSMD model

Market conditions	Non-market conditions
High level of export dependence	Strong program capacity
A high level of industry concentration	Strong social movement pressure

Support from lead firms in the industry	High political salience of the issue
Support from the peak industry association	Support from state actors